



Director of
Central
Intelligence

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OCPAS/CTC

National Intelligence Daily

Tuesday
22 March 1983

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CPAS NID 83-068JX

22 March 1983

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USSR-CHINA: Talks in Moscow End

The second round of Sino-Soviet consultations has ended with both sides apparently still largely talking past each other on the key issues, although the Soviets have proposed discussing some force reductions. []

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Chinese Deputy Foreign Minister Qian Qichen reportedly left Moscow yesterday after having met with Foreign Minister Gromyko. The Chinese news agency Xinhua tersely said they had exchanged views on "removing obstacles" and improving relations. TASS said Gromyko had emphasized Moscow's readiness to explore ways to normalize relations and the "existing possibilities" for a gradual broadening of bilateral contacts. []

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TASS added that both sides had noted the value of their political dialogue. Soviet Deputy Foreign Minister Kapitsa reportedly plans to visit Beijing in May, but there is as yet no indication whether his visit is connected with the next round of talks. []

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A Chinese party official disclosed on Friday that the Soviets had proposed a nonaggression pact and mutual force reductions along the Sino-Soviet border. He implied that the proposal had been made at the talks in Moscow and that it excluded Soviet forces in Mongolia. The Chinese are said to have responded by reiterating their standard preconditions for a normalization of relations. []

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Comment: The accounts of the meeting between Qian and Gromyko suggest that the two sides remain far apart on China's key demands. Nonetheless, Beijing and Moscow are likely to increase their bilateral contacts in the coming months. []

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The Chinese account of the Soviet offer of a nonaggression pact—accompanied for the first time by a proposal for mutual force reductions—is the first official confirmation of a Soviet initiative on a security issue since the dialogue resumed last fall. Beijing is certain to reject the proposal, however, as long as Soviet forces in Mongolia are not included or covered by a parallel agreement between China and Mongolia. []

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FRANCE: Mitterrand's Domestic Moves

President Mitterrand probably will announce new austerity measures and explain a further shakeup of the cabinet in a televised speech tomorrow. []

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The US Embassy reports that the government is preoccupied with the need to reduce the external trade deficit. Last week French officials indicated any realignment of the franc within the European Monetary System would be accompanied by a new domestic stabilization program. According to the officials, the program probably would include additional measures to keep wage increases in line with the government's goal of an 8-percent inflation rate for 1983, a reiteration of the plan to phase out controls on industrial prices, further reductions in government spending, and new incentives for savings. []

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Comment: Mitterrand will be likely to argue that new austerity measures are consistent with the government's current emphasis on restoring France's international competitiveness. He probably also will seek to sell them to leftist voters by arguing that they are necessary to preserve social advances instituted under the Socialists.

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Although draconian protectionist measures to reduce imports cannot be excluded, the resignation of Foreign Trade Minister Jobert Sunday and the EMS realignment yesterday suggest they are unlikely. Mitterrand remains anxious to avoid a serious clash with the West Germans and apparently has decided not to lean heavily on increased protectionism in attempts to redress France's trade deficit. []

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Finance Minister D lors has supported continued participation in the EMS, and his successful negotiations with Bonn on the realignment could strengthen his hand as a possible replacement for Prime Minister Mauroy. Mitterrand almost certainly will reduce his cabinet and bring in a few Socialist technicians. []

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Mitterrand's expected call for some economic "sacrifice" will add new strains to the uneasy coalition between Socialists and Communists. The strains will be aggravated if the President decides to reduce Communist representation in the cabinet. []

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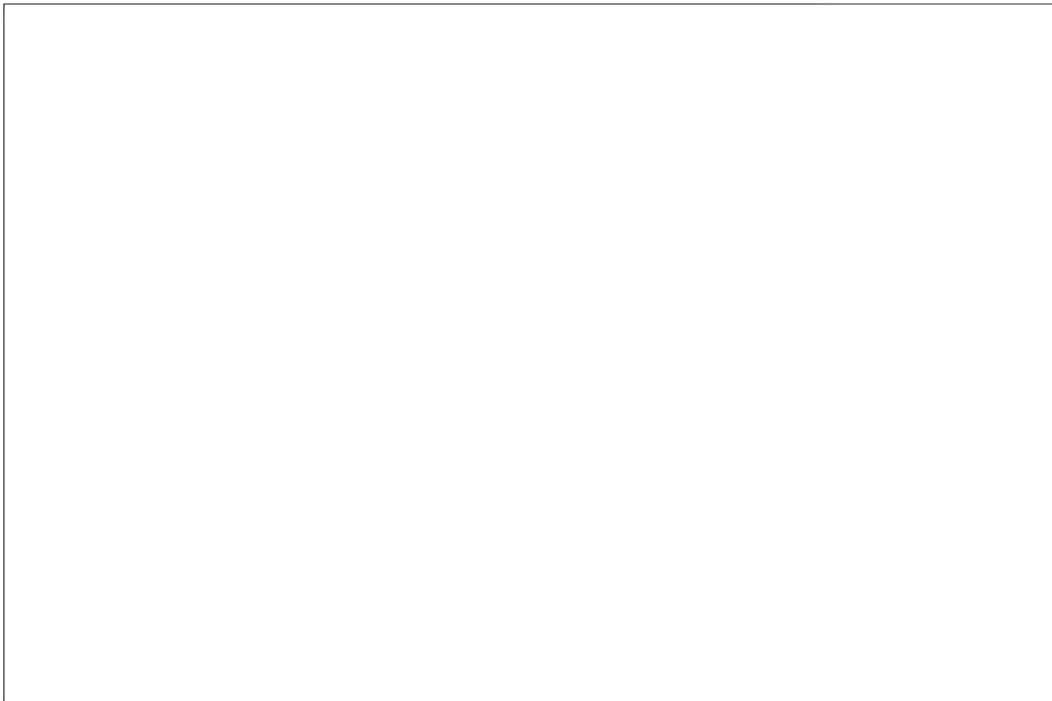
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CHINA-US: Comments on Textile Talks

Beijing has blamed the US for the deadlock in the textile negotiations but seems to be easing its tougher rhetoric of recent months. A brief Chinese press statement on Friday said the stalemate was caused by the lack of an "appropriate response" from the US. Beijing claimed it has been flexible and implied it had made major concessions. Last week a ranking Chinese official privately warned again that failure to reach an agreement would adversely affect bilateral economic relations and trade. 

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Comment: The mild press reaction suggests the Chinese are reasonably satisfied with progress made during the most recent talks. Beijing probably will not impose further trade restrictions before the next round of negotiations. In January Beijing suspended purchases of cotton, synthetic fibers, and soybeans after the fourth round ended. So far, however, these restrictions have had limited effect on bilateral trade. 

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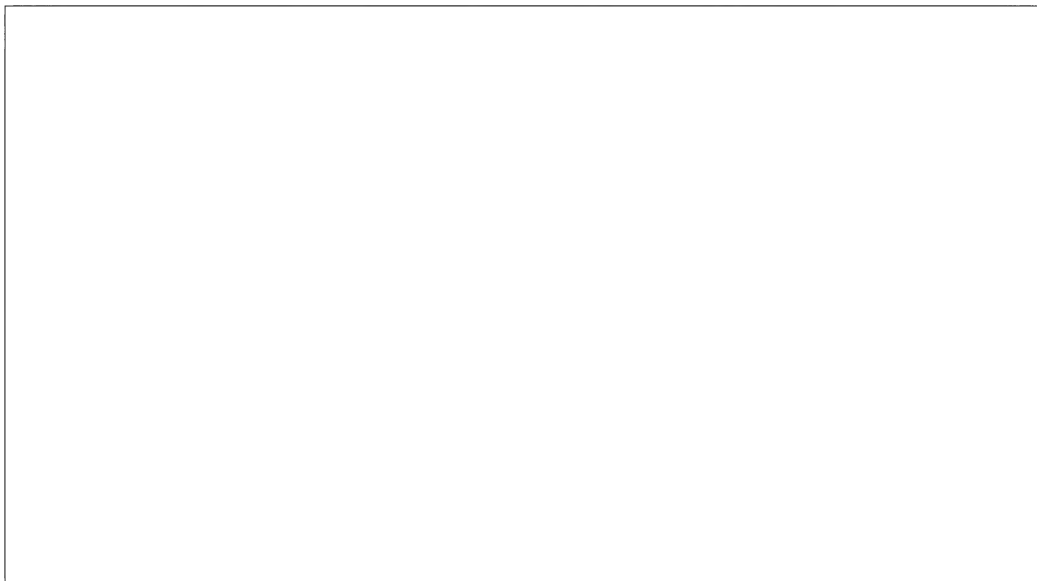
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**PAKISTAN: Renewed Violence in Karachi**

Authorities in Karachi have reimposed a curfew on parts of the city and called in the Army after four days of fighting between Sunnis and Shias that has resulted in numerous deaths. The rioting is centered in the district affected last month but has spread. The Sunnis accuse Iran of supplying weapons to the Shias, but they also believe President Zia's regime has favored Shias in local disputes and reportedly have been chanting anti-Zia slogans. Students supported the Sunni call for a general strike on Sunday and forced many stores to close.

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Comment: The authorities may have more difficulty restoring order this time because of the deaths and rumors of atrocities. Most opposition leaders realize an anti-Zia movement based on sectarian demands could threaten the state and will support efforts to end the clashes. Prolonged rioting, however, would undermine confidence in the government's ability to maintain order and could encourage Zia's opponents to become more active.

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FINLAND: Social Democrats Strengthen Control

Large election gains by Prime Minister Sorsa's Social Democratic Party in Finland's parliamentary election, held Sunday and Monday, strengthen its control of the government and are likely to lead to a continuation of the current center-left coalition. The ruling coalition—the Social Democrats, the Center Party, and the Swedish People's Party—won 106 seats out of 200, with Sorsa's party increasing its share of the vote by 2.8 percent to 26.8 percent and adding six seats to the 52 it held in the last parliament. The Conservatives, who had hoped to enter the government after 17 years in opposition, increased their vote only slightly, and the Communist-Socialist People's Democratic League lost eight of its 35 seats. [REDACTED]

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Comment: Sorsa has already publicly indicated that the People's Democratic League will not be asked to reenter the government because of its internal dissension. Although President Koivisto has suggested that the Conservatives could be asked to join the government, their entry is unlikely since continuing the present coalition is an attractive option. [REDACTED]

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Special Analysis

CANADA-US: Status of Relations

Canadians continue to view favorably their close association with the US but recently have been more critical of various aspects of US policy, ranging from security policy to bilateral trade. Canadian officials will raise many of these issues with Vice President Bush during his visit to Ottawa. []

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The ruling Liberal Party is traditionally ambivalent toward the military and continues to give low priority to defense spending. Under Prime Minister Trudeau, Canada has viewed its security as linked with the US. Ottawa sees its military contribution to NATO as a way of ensuring political influence in the Alliance. []

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Following years of neglect, Canada's armed forces are embarked on a substantial reequipment program. Over the last decade, Canada has spent an average of only 2 percent per year of gross domestic product for defense, less than half the NATO average and one of the lowest in the Alliance. The poor economic climate may lead to budget reductions and delays in the reequipment program, which is already behind schedule in several areas. []

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The government has encountered widespread criticism from political opponents and the public to its signing in February of a comprehensive weapons-testing agreement with the US. Opposition has focused on the proposed testing of US air-launched cruise missiles over Canadian territory. []

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Originally, arrangements to test various weapon systems were to be concluded by the respective defense departments. As a result of the intense opposition, however, Trudeau has announced that each agreement has to be sanctioned by the cabinet before it is put into effect. The government also will try to obtain a firm public recommitment from the US to the "dual-track" policy on INF, while urging the US to present new proposals in the arms control talks at Geneva. []

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International Issues and Trade

There have been few policy differences between Canada and the US on the Middle East. Trudeau supports the US peace initiative on the Middle East, and he recently said the most useful role Canada can play is to urge the US to follow through on it. []

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Ottawa is less sanguine, however, about the US role in the Caribbean and Central America. Several factors may lead the Canadians to become more active in the region. These include Canada's extensive financial involvement in the area, domestic pressure from political and religious groups, and Trudeau's reputation as an arbiter of North-South conflicts. Canadian officials apparently were disappointed that Nicaraguan Foreign Minister d'Escoto, during his recent visit to Canada, did not ask Ottawa to mediate Managua's dispute with the US. []

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Declining world oil prices are causing concern in Ottawa. As part of the National Energy Program, the government has set domestic oil prices at a rate not to exceed 75 percent of world levels. []

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Ottawa, however, is finding it increasingly difficult to adhere to this formula. Falling world prices are drastically reducing federal revenues and adding to what is already a record budget deficit. []

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OPEC's recent price reductions have put the domestic price of oil above the 75-percent ceiling. Canada has not officially abandoned the formula, but neither has it ordered the necessary reductions in domestic prices. Ottawa has announced its decision to forgo increases in domestic oil prices scheduled for July. []

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Canadian officials are concerned that the US might push too hard on East-West economic relations and that it might increase protectionist economic policies. Canada has long supplied large amounts of grain to the USSR and is now trying to increase sales of high-technology equipment and machine tools for use in the Soviet and East European oil and natural gas industries. []

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The government's hope for a sustained economic recovery is based mainly on its ability to achieve a significant expansion in the volume and value of its export trade. Consequently, Ottawa opposes restrictions on the export of Western high-technology products to the East, the imposition of countervailing duties on its exports to the US, or other measures that might slow the growth of exports. []

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Bilateral Problems

The Canadians still view acid rain as the major issue between themselves and the US. Environment Minister Roberts has said Ottawa is "exasperated and impatient" over the lack of progress in talks on acid rain and has criticized Washington's insistence on additional scientific research. Parliament will soon reestablish its Subcommittee on Acid Rain, which will compile information on acid

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rain and provide it to interested environmental groups and government agencies in Canada, the US, and Scandinavia. [REDACTED]

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The two federal opposition parties fully support the government on acid rain. Recent polls also indicate public opinion supports Roberts's position. Seventy-eight percent of college graduates polled identified acid rain as Canada's most pressing environmental problem, and 87 percent said Ottawa is not tough enough in its bargaining with the US. [REDACTED]

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In recent years the government has begun to doubt its ability to conclude workable agreements with the US. It argues that years of arduous negotiation are not worthwhile if a treaty ends up being blocked in the US Senate. For example, Ottawa points to the East Coast Fisheries and Maritime Boundary Treaty that was withdrawn from Senate consideration in 1981. [REDACTED]

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Ottawa's current concern is that the recently initialed Pacific Salmon Treaty will not be ratified. There have been calls in the US Senate for the renegotiation of several of the treaty's provisions, which the Canadian Government now considers inviolable. [REDACTED]

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Other disagreements between Ottawa and Washington have been over trucking regulations, Niagara River pollution, Canadian lumber exports, and the US Government's labeling of three films produced by Canada's National Film Board as propaganda. [REDACTED]

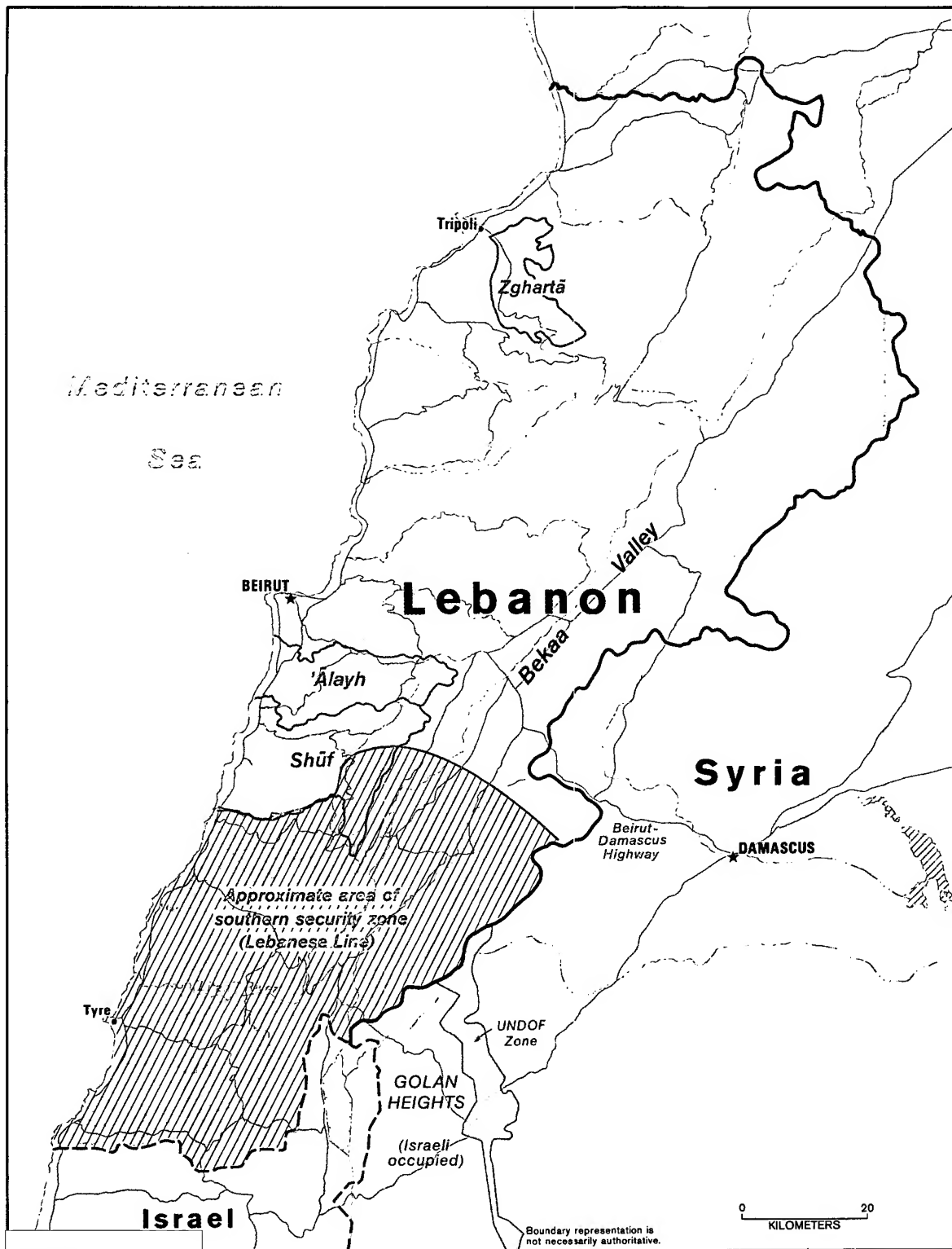
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Special Analysis

LEBANON: The Army's Capabilities and Prospects

The Lebanese Army will have to take on the main responsibility for policing the security zone now being negotiated with Tel Aviv and for maintaining order throughout the country after foreign forces withdraw. Newly equipped and retrained, the Army—from a military standpoint—probably could defeat any single challenge to its authority. The force will be spread thin, however, and whether it will muster the political will and cohesion to subdue factional fighting remains a key issue. President Gemayel probably will request a broader role for the multinational force to provide an international buffer between antagonistic Lebanese groups.

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Since the beginning of the year, the Army's capabilities have improved substantially. Its commander, General Tannous, has removed many incompetent and corrupt officers, and US equipment has corrected major deficiencies in four of the Army's seven brigades.

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Morale in the force reportedly has improved as a result of Tannous's changes, US-assisted refresher training, and such small but important successes as the recent entry into East Beirut. Nevertheless, the Army remains largely untested.

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The Israelis claim the sectarian loyalties of Army enlisted men will make it incapable of policing the southern security zone. There is, in fact, reason to doubt the willingness of Christian officers to confront Christian militias, or of Muslim enlisted men to fire on Druze or Sunni militias. There is little question, however, of the Army's desire to take on the PLO.

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Most Lebanese blame the PLO for precipitating the civil war in 1975-76 that destroyed Lebanon's fragile political and economic equilibrium. The Army is likely to have little sympathy for the PLO.

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Policing the South

One Army brigade probably could control Palestinian activity in the southern border area at least as well as the Israelis do now. The Army would be facing small, lightly armed groups rather than large, heavily armed PLO units. If the Army could establish a good intelligence network and acquire a rapid deployment capability in the south, it would be likely to perform effectively.

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control throughout Lebanon. By the end of March, the Army will have only four brigades and three battalions at 70-percent strength, with three other brigades at less than one-half strength.

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If the government were to deploy a brigade in the southern security zone, two in Beirut and its surrounding area, and one in the Bekaa Valley, the Army would have only a few battalions from three seriously understrength and underequipped brigades to guard the northern borders and police the rest of the country. It would be supplemented by the 7,000-man Internal Security Force—a national gendarmerie—and possibly the 3,000-man Lebanese Forces militia acting as a border guard. The Army, however, probably also would require assistance from an expanded multinational force—perhaps to stand between contending Lebanese factions.

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